

**CHEROKEE DEVELOPMENT AUTHORITY**  
Cherokee, Oklahoma

**FINANCIAL STATEMENTS**  
June 30, 2013





## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
Cherokee Development Authority  
City of Cherokee, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Cherokee Development Authority, City of Cherokee, Oklahoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements, as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Basis for Qualified Opinion**

The City has not maintained sufficient documentation to audit the accounts receivable for services, related allowance for losses, prepaid expenses, accounts payable, meter deposit liability, payroll liabilities, accrued liabilities and notes payable and their related revenue/expense accounts for the business type activities. Additionally, management has not presented a statement of cash flows that is required to be presented as part of the basic financial statements in accordance with Generally Accepted Accounting Principles in the United States (GAAP). GAAP as promulgated by the Governmental Accounting Standards Board (GASB), considers a statement of cash flows to be an essential part of financial reporting for placing basic financial statements in an appropriate, economic, or historical context. It is not reasonable determinable the effect of the omission to the user of these financial statements. If the omitted statements were included in the financial statements, they might influence the user's conclusions about the financial position and results of operations of the entity. Accordingly, the financial statements are not designed for those who are not informed about such matters.

## **Qualified Opinions**

In our opinion, except for the possible effects of the matter discussed in the “Basis for Qualified Opinion” paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Cherokee Development Authority, City of Cherokee, Oklahoma as of June 30, 2013, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 1, the financial statements of the Cherokee Development Authority, City of Cherokee, Oklahoma, are intended to present the financial position and the changes in financial position of only that portion of the business-type activities of the City that is attributable to the transactions of the Authority. They do not purport to, and do not present fairly the financial position of the City of Cherokee, Oklahoma as of June 30, 2013, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

We draw attention to the Schedule of Findings and Responses on pages 13-17, which describes the findings and management’s response to the findings that in the aggregate has had, and continues to have, a significant effect on the Cherokee Development Authority, City of Cherokee’s financial position presentation and the risks associated with effective maintenance and operation of the financial reporting system. Our opinion is not qualified in respect of this matter except to the extent that the scope limitations were created as a result of these findings.

## **Other Matters**

### *Required Supplementary Information*

Management has omitted management’s discussion and analysis and budgetary comparison information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 6, 2015, on our consideration of the Cherokee Development Authority’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cherokee Development Authority’s internal control over financial reporting and compliance.

**FSW&B CPA's- PLLC**

FSW&B CPA's-PLLC  
Stillwater, Oklahoma  
January 6, 2015

City of Cherokee, Oklahoma  
Statement of Net Position-Proprietary Funds  
June 30, 2013

	<u>Cherokee Development Authority</u>
<b>Assets</b>	
Current Assets	
Unrestricted:	
Cash and cash equivalents	\$ 1,274,880
Investments	-
Accounts receivables, net	15,776
Prepaid insurance	36,792
Due from other sources	(852)
Other current assets	-
Restricted assets:	
Cash and cash equivalents	143,314
Investments	796,833
Total current assets	<u>2,266,744</u>
Noncurrent assets:	
Capital assets (net of accumulated depreciation)	1,752,875
Restricted assets:	
Investments	-
Total noncurrent assets	<u>1,752,875</u>
Total Assets	<u><u>4,019,619</u></u>
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	53,461
Accrued liabilities	14,434
Interest payable	-
Payroll liabilities	30,526
Due to other funds	-
Other current liabilities	-
Current portion of loans payable	89,584
Total current liabilities	<u>188,004</u>
Liabilities payable from restricted assets:	
Customer deposits	150,066
Total liabilities payable from restricted assets	<u>150,066</u>
Noncurrent liabilities:	
Notes Payable	1,163,955
Total noncurrent liabilities	<u>1,163,955</u>
Total Liabilities	<u><u>1,502,025</u></u>
<b>Net Position</b>	
Invested in capital assets, net of related debt	239,862
Restricted	1,749,096
Unrestricted	542,418
Prior Period Adjustment	<u>(13,782)</u>
Total net position	<u><u>\$ 2,517,594</u></u>

The accompanying notes are an integral part of these financial statements

City of Cherokee, Oklahoma  
Statement of Revenues, Expenses, and Changes in Fund Net Position  
Proprietary Funds  
For the Fiscal Year Ended June 30, 2013

	<u>Cherokee Development Authority</u>
<b>Operating Revenues</b>	
Charges for services:	
Water	\$ 602,050
Sewer	123,664
Trash	200,924
Penalties	18,770
RV Park	218,156
Other	6,725
Total operating revenue	<u>1,170,289</u>
<b>Operating Expenses</b>	
Personnel services	302,684
Professional services	17,385
Insurance	12,756
Utilities	152,877
Maintenance	137,077
Operations	98,128
Materials and supplies	20,229
Trash collection expense	156,466
Depreciation	90,267
Miscellaneous	30,629
Bad Debts	-
Total operating expenses	<u>1,018,498</u>
Net operating income (loss)	<u>151,791</u>
<b>Non-Operating Revenues (Expenses)</b>	
Interest revenue	13,534
Interest expense	(39,400)
Administrative fees	(6,292)
Total non-operating revenue (expenses)	<u>(32,158)</u>
<b>Contributions and Transfers</b>	
Grant proceeds	-
Transfers to primary government	9,983
Total other financing sources (uses)	<u>9,983</u>
<b>Net Income (Loss)</b>	129,616
<b>Net Position- Beginning of year</b>	2,401,760
Prior Period Adjustment	(13,782)
<b>Net Position- End of year</b>	<u><u>\$ 2,517,594</u></u>

The accompanying notes are an integral part of these financial statements

Notes to the Financial Statements  
Cherokee Development Authority  
June 30, 2013

**Note 1- Summary of Significant Accounting Policies**

Reporting entity

The Cherokee Development Authority (the "Authority") was incorporated under the provision of the Oklahoma Statutes by a Declaration of the Trust. The City has beneficial interest, and the trustees of the City serve as trustees of the Authority. City employees carry on the activities of the Authority. The Authority provides water, sewer, and trash services to the citizens of Cherokee. Accounts of the Authority are recorded as business-type activities.

The financial statements of the Authority are prepared in accordance with generally accepted accounting principles (GAAP). The Authority's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Authority's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989. The more significant accounting and reporting policies and practices used by the Authority are described below.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Authority uses the economic resources measurement focus and the accrual basis of accounting. The Cherokee Development Authority accounts for the activities of providing water, sewer, and trash services to the public. The Authority's activities are financed primarily by user charges. The measurement of financial activities focuses on whether the Authority is economically better off as a result of the events and transactions that occurred during the fiscal period, much like that of a private-sector business. The basis of accounting is inseparably tied to its measurement focus, which recognizes increase and decreases in economic resources as soon as the event or transaction occurs. Thus, revenues are recognized as soon as they are earned and expenses are recognized as soon as a liability is incurred, regardless of the timing of related cash inflows and outflows.

Statement of Net Assets

The Statement of Net Assets is designed to display the financial position of the Authority. The Authority reports all capital assets, net of accumulated depreciation, in the Statement of Net Assets and reports depreciation expenses-the cost of "using up" capital assets- in the Statement of Activities. The net assets of the Authority are broken down into three categories: 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted. Long-term liabilities are reported in two categories: 1) the amount due within one year; and 2) the amount due in more than one year.

Notes to the Financial Statements  
Cherokee Development Authority  
June 30, 2013

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Statement of Activities

The Statement of Activities reports net revenue (expenses) in a format that focuses on the cost for each of the business-type activities of the Authority. The Authority distinguishes operating revenues and expenses from nonoperating items in the Statement of Activities. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for sales and services. The Authority also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses that are reported separately after the total net expenses of the Authority's functions, ultimately arriving at the change in net assets for the period.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in proprietary fund financial statements to the extent that those standards do no conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first and then unrestricted resources as they are needed.

Cash and cash equivalents

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments

State statutes authorize the Authority to invest in obligation of the U.S. Treasury securities, time deposits with financial institution if such deposits are fully insured by federal depository insurance or pledge collateral and debt securities issued by the State of Oklahoma, Oklahoma counties, school districts, or municipalities.

Investments for the Authority are reported at fair value, based on quoted market rates.

Allowances for doubtful accounts

The allowance for doubtful accounts represents those accounts which are deemed uncollectible based upon collection history and analysis of creditor's ability to pay.

**Notes to the Financial Statements**  
**Cherokee Development Authority**  
**June 30, 2013**

Receivables and payables

Activity between the City of Cherokee and the Authority are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds”.

All trade receivables are shown net of an allowance for uncollectible. Trade accounts receivables in excess of 90 days comprise the trade accounts receivable allowance for uncollectible.

Restricted assets

Certain proceeds of the Authority, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

Capital assets

Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Of this amount, none was included as part of the cost of capital assets under construction in connection with wastewater treatment facilities construction project.

Property, plant, and equipment of the Authority are depreciated using the straight line method over the following estimated useful lives:

<u>Type of Asset</u>	<u>Years</u>
Buildings	40
Improvements other than building	30
Infrastructure	40
Vehicles and equipment	5-10

Revenue and Expenses

Operating revenues for the Authority encompass the following: water, sewer, and trash-billings for user charges; penalties- billings for reconnection fees and service charges; and other- RV park rental income.

Notes to the Financial Statements  
Cherokee Development Authority  
June 30, 2013

Revenue and Expenses (Continued)

Non-operating revenues include interest income as well as any other receipts unrelated to the above activities.

Proprietary fund types normally report expenses relating to the use of economic resources. For the purpose of the financial statements, expenses are classified as follows: by operating and non-operating expenses.

Transfers

Permanent reallocation of resources between the City of Cherokee and Authority is reported as "other financing sources (uses)".

Compensated absences

It is the Authority's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the Authority does not have a policy to pay any amounts when employees separate from service with the Authority. All vacation pay is accrued when incurred in the financial statements.

Long-term obligations

In the financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the interest method.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Net Assets

In the Authority's financial statements, net assets are classified in the following categories:

***Invested in capital assets, net of related debt-*** This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balance of debt that are attributable to the acquisition, construction or improvement of these assets reduce this category.

***Restricted Net Assets-*** This category represents the net assets of the Town, which are restricted by external parties (creditors, grantors, contributors, or laws and regulations).

***Unrestricted Net Assets-*** This category represents the net assets of the Authority, which are not restricted for any project or other purpose.

**Notes to the Financial Statements**  
**Cherokee Development Authority**  
**June 30, 2013**

Date of Management's Review

Subsequent events were evaluated through January 6, 2015, which is the date the financial statements were available to be issues.

**Note 2- Cash, Cash Equivalents and Investments**

Deposits and investments

The Authority's carrying amount of deposits were properly insured and collateralized at June 30, 2013 . Collateral for the Authority's deposits and investments is categorized to give an indication of the level of risk assumed by the Authority at year end.

*Category 1-* Insured or collateralized with securities held by the entity or by its agents in the entity's name.

*Category 2-* Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.

*Category 3-* Uncollateralized

In accordance with Title 62, Section 516.3 of the Oklahoma statutes, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral which includes certain U.S. Government or Government Agency securities, certain State of Oklahoma or political subdivision debt obligations or surety bonds.

The investments held at June 30, 2013 are as follows:

<u>Type</u>	<u>Amount</u>
Certificate of Deposit	287,667
Certificate of Deposit	287,667
Certificate of Deposit	221,500
Total Investments	<u>\$ 769,834</u>

**Note 3- Receivables**

Receivables as of June 30, 2013 for the Cherokee Development Authority including the applicable allowance for uncollectible accounts are as follows:

Receivables:	
Utility services	\$49,829
Other	<u>828</u>
Gross receivables	<u>50,657</u>
Less: allowance for uncollectible accounts	<u>(34,881)</u>
Net total receivables	<u>\$15,776</u>

**Notes to the Financial Statements**  
**Cherokee Development Authority**  
**June 30, 2013**

**Note 4- Liabilities**

The following is a summary of long-term debt for the year ended June 30, 2013:

Note payable to the Oklahoma Water Resources Board for the water treatment plant and transmission. Principal payments with interest are due each year on March 15 and September 15 with 3.00% interest. Final payment is due September 15, 2026. \$ 974,626

Note payable to the Oklahoma Water Resources Board for the install of water meters. Principal payments with interest are due each year on March 15 and September 15 with 2.56% interest. Final payment is due September 15, 2022. 195,671

Note payable to the Oklahoma Department of Commerce with monthly principal payments in the amount of \$520.83 with no interest. 49,480

Note payable to John Deere Financial for purchase of a backhoe. Principal payments are due annually on the 25<sup>th</sup> of April. Final payment is due April 25, 2017. 33,763

**Total Long Term Debt \$ 1,253,540**

Maturities of long-term debt for are as follows:

Year ending			Total
<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Outstanding</u>
2013	86,720	44,371	1,253,540
2014	89,584	41,507	1,163,955
2015	92,551	38,541	1,071,404
2016	95,531	35,560	975,874
2017	98,804	32,287	877,069
2018-2022	487,823	113,918	389,246
2023-2026	<u>389,246</u>	<u>34,514</u>	-0-
	<u>\$1,340,259</u>	<u>\$ 340,698</u>	



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees  
Cherokee Development Authority  
City of Cherokee, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Cherokee Development Authority, City of Cherokee, Oklahoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Cherokee Development Authority's basic financial statements and have issued our report thereon dated January 6, 2015.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Cherokee Development Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Cherokee Development Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Cherokee Development Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses: 2013-2 and 2013-3

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and responses to be significant deficiencies: 2013-1, 2013-5 and 2013-6 .

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Cherokee Development Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2013-4, 2013-7 and 2013-8.

## **Cherokee Development Authority's Response to Findings**

Cherokee Development Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Cherokee Development Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**FSW&B CPA's-PLLC**

FSW&B CPA's-PLLC  
Stillwater, Oklahoma  
January 6, 2015

CITY OF CHEROKEE, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDING JUNE 30, 2013

FINDING 2013-1 Lack of Segregation of Duties

Condition: The Authority does not have adequate segregation of duties for internal control over financial reporting purposes due to a limited amount of personnel. To the extent they do have personnel to segregate responsibilities, individuals are not performing their duties at all or inadequately.

Criteria: The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping for those assets and reconciliation of those asset accounts is an important control activity needed to adequately protect the Town's assets and ensure accurate financial reporting.

Cause: The City's limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

Effect or Potential Effect These conditions could result in material errors or fraud occurring and not be detected on a timely basis.

Recommendation: Recommend that duties be segregated to the extent possible should new employees be hired or services outsourced.

Response: The Council members are aware of lack of segregation of duties and duties being performed. They are currently looking to resolve this matter.

FINDING 2013-2 Adequate Record Keeping

Condition: Several account general ledger balances did not agree with their respective subsidiary ledger. The following accounts did not reconcile with subsidiary accounts at year end: accounts receivable, accounts payable, and customer meter deposits.

Criteria: All transactions should be posted and processed timely, which includes the timely performance of reconciliations.

Cause: The lack of formal policies and procedures being performed and/or followed on a timely basis, which is a result of management override of controls. Additionally, the financial reporting system design and/or poor training and procedures of accounting system personnel contributed to this finding.

Effect or Potential Effect The effect of not maintaining effective internal control over these accounts could result in material errors or fraud occurring and not be detected on a timely basis, uncollectible receivables, inaccurate payment of liabilities to the respective vendor, and/or losing the opportunity to claim and use in its operations forfeited customer deposits.

CITY OF CHEROKEE, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDING JUNE 30, 2013

FINDING 2013-2 Adequate Record Keeping (continued)

Recommendation: Reconcile accounts with applicable subsidiary ledgers, deposit lists, and/or detailed billing registers at the end of each month. The reconciliations should be performed timely to ensure the accounting systems are synchronized and performing properly. Explain all reconciling items and make adjustments, if necessary.

Response: Management is aware of differences between subsidiary ledgers and are currently exploring the implementation of new software.

FINDING 2013-3 Improper or non-existent records on fixed assets and depreciation

Condition: No evidence to support prior year fixed asset carrying amounts or correct depreciation amounts for prior or current years.

Criteria: For proprietary funds, generally accepted accounting principles in the United States requires that assets are carried on the balance sheet at the lower of historical cost less accumulated depreciation or their impaired value.

Cause: The lack of formal policies and procedures being performed and/or followed on a timely basis, which is a result of management override of controls.

Effect or Potential Effect: The effect of not maintaining adequate records on fixed assets and depreciation results in material misstatements of the financial statements.

Recommendation: Additional controls and procedures should be implemented to ensure that consistent and accurate classification of fixed assets is done in order to ensure a complete asset listing is available.

Response: Management will evaluate their procedures and develop additional procedures that will mitigate the risk to an acceptable level.

FINDING 2013-4 Negative Budget Variances

Condition: The Town had expenditures during the year ended June 30, 2013 in excess of appropriations in the amount of \$260,188 for operating activities of the Authority.

Criteria: Expenditures may not exceed appropriations approved by the Board of Trustees.

Cause: The Board of Trustees did not approve supplemental appropriations and/or transfers prior to expenditure.

Effect or Potential Effect: If all other appropriations had been fully expended, the Authority would have created a negative fund balance.

CITY OF CHEROKEE, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDING JUNE 30, 2013

FINDING 2013-4 Negative Budget Variances (continued)

Recommendation: The Board of Trustees should confirm available appropriations prior to approving expenditures. When appropriations are insufficient for an identified need, a budget revision should be approved by the Trustees prior to approving additional expenditures.

Response: Management will evaluate their procedures and develop additional procedures that will mitigate the risk to an acceptable level.

FINDING 2013-5 Lack of Proper Reconciliations

Condition: We found instances where there were significant reconciling items that did not timely clear and instances where changes to the reconciliations were made well after the cutoff for that period. The control for reconciling material bank balances each period is effectively designed if reconciliations are performed properly and a good cutoff is observed. However, the reconciliations were not always done properly which resulted in items which were incorrect being reconciled and then errors corrected at a much later date after there should have been cutoff and no further transactions performed.

Criteria: Reconciliations should be performed in a timely manner at the end of each month. Any differences that are found on reconciliations should be investigated immediately and reported to management.

Cause: The lack of formal policies and procedures being performed and/or followed on a timely basis, which is a result of management override of controls.

Effect or Potential Effect: If reconciliations are not performed properly this could potentially under/overstate cash accounts.

Recommendation: All bank accounts should be timely and completely reconciled and any differences immediately investigated and reported to management. Once a period is cutoff, there should be no changes to that period. Cutoff for each month should ideally be as soon after that month is reasonably possible and in no instances later than the end of the subsequent period. Management should be involved in supervisory activities to ensure that these controls are being followed

Response: Management will evaluate their procedures and develop additional procedures that will mitigate the risk to an acceptable level

CITY OF CHEROKEE, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDING JUNE 30, 2013

FINDING 2013-6 Lack of Controls for Restricted Revenues

Condition: No controls exist to ensure that restricted revenues are only used for intended purposes.

Criteria: Revenues that are restricted for a specific purpose should have adequate safeguards imposed so assets are not misappropriated.

Cause: Management override of controls.

Effect or Potential Effect: The financial statements could be misclassified and resources used that should not be available from those sources.

Recommendation: Management should implement procedures and controls which ensure that restricted revenues are used in accordance with applicable statute, city ordinance or the intent of the person who contributed money.

Response: Management will evaluate their procedures and develop additional procedures that will mitigate their risk to an acceptable level.

FINDING 2013-7 Filing Annual Report

Condition: The Authority is out of compliance with state statute by not having filed an annual report in a timely manner.

Criteria: Oklahoma Statutes requires that a municipality submit a copy of their financial audit or agreed upon procedures as applicable prior to six months after the end of the fiscal year.

Cause: Management override of controls and inadequate record keeping.

Effect or Potential Effect: The gasoline excise tax has been withheld by the Oklahoma Tax Commission. If this is not completed within two years the amounts due to the municipality are lapsed and remitted to the county.

Recommendation: Maintain adequate records throughout the year in ensure the ability to complete an annual audit in a timely manner.

Response: Management will evaluate their procedures and develop additional procedures that will mitigate their risk to an acceptable level.

CITY OF CHEROKEE, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDING JUNE 30, 2013

FINDING 2013-8 Debt Covenant Violation

Condition: The Authority has a debt covenant violation.

Criteria: The Authority must complete a timely audit and maintain debt coverage levels as required by the debt instrument.

Cause: Management override of controls, inadequate record keeping and inconsistency of classification of expenses.

Effect or Potential Effect: Could result in an effective default of long term debt issuance.

Recommendation: Maintain adequate records throughout the year in ensure the ability to complete an annual audit in a timely manner.

Response: Management will evaluate their procedures and develop additional procedures that will mitigate their risk to an acceptable level.